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Key points

- The reweighting and rebasing of the CPI is taking place according to a clearly planned schedule and the process has not been delayed.
- There is no error in Stats SA's calculation of the official inflation rate, which is the best measure currently available of changes in consumer prices.
- There are inevitable differences between the old CPI and the new CPI, which will be introduced as scheduled in February 2009.
- In the interests of transparency and explaining the forthcoming changes Stats SA has provided extensive information to the public regarding the new CPI.

Stats SA response to allegations of an overstated Consumer Price Index (CPI)

On 1 July 2008 Stats SA announced the new weights for the Consumer Price Index. The new weights are based on a one-year, comprehensive survey of household expenditure (Income and Expenditure Survey) and other data sources. The new weights will be implemented with effect from the January 2009 CPI release, together with several methodological improvements.

Stats SA indicated on 1 July that, under an assumption of a continuation of current price changes, the new weights would most likely result in a decline in the level of measured inflation. This is mainly because of a reduced weight for food and an increased weight for motor vehicles. But the extent to which the January 2009 inflation rate will be affected by the changes depends largely on price changes.

Early in 2007 Stats SA announced that the new CPI weights based on the 2005/6 Income and Expenditure Survey would come into effect in 2009. The organisation has since kept the public and the Statistics Council informed about a number of developments including the release of a new basket of goods and services to be included in the CPI and, more recently, the new official weights.

Recent press reports based on an analysis of consumer price inflation by Investec Asset Management suggest an error in the calculation of the CPI, resulting in an overstatement of the annual inflation rate. The difference between Stats SA's official inflation rate and Investec's estimates arises from the reweighting and rebasing of the CPI to be implemented in 2009. It is important to note that there is no error in Stats SA's CPI calculations. Any difference in the rate of inflation given the old and new weights is not the result of errors but of a careful and logical process of keeping up with current changes in the economy as far as practically possible. Reweighting and rebasing in many advanced economies take place with intervals of 3 to 10 years. In most cases, South Africa included, base-period weights are used in the CPI, which implies that the weights always refer to a previous period and inevitably introduce a measure of bias. While no CPI is free of biases, Stats SA strives to minimise such biases.

Stats SA has not delayed the reweighting of the CPI. This has been part of a structured planning and scheduling process, aimed at producing an improved CPI. In view of the importance of the CPI, Stats SA has been careful to ensure that every aspect of the reweighting and rebasing is treated with utmost care. The result will be a vastly improved CPI in 2009.

The new weights are primarily based on the Income and Expenditure Survey carried out over 12 months in 2005/6. The scale of this survey requires detailed post-survey follow-up. This was done in 2007. In September 2007 Stats SA published a draft basket of goods and services to be used for CPI compilation from 2009. In order to effectively provide a year-on-year comparison we began our parallel price collection (of new products in the basket) in the earliest calendar year that was practically possible – i.e. 2008. If Stats SA had released the new CPI in 2008 we would not have had a year-on-year comparable CPI – this would have had serious implications for the consistency and credibility of the CPI.

It is necessary to rebase the price indices periodically. This removes the effect of accumulated inflation, which differs from category to category. Stats SA agrees with analysts that the rebasing would bring down the level of inflation given current trends.

The current CPI is the official CPI. The newly re-weighted CPI will officially come into effect in February 2009, and until the changeover takes place the existing CPI provides the best measure of price changes that it is currently possible to calculate. It would be misleading and confusing for Stats SA to introduce an interim official inflation rate, an exercise which would probably necessitate the revision of historical index levels in violation of the internationally accepted principle of non-revision in the case of the official CPI.

Long-term planning of changes in the CPI is essential given the scale and importance of the index. Approximately 100 000 prices are collected each month, and over 220 staff members work on the collection, capturing, quality assurance and compilation of the CPI. Changes to the methodology of the CPI must be announced well ahead of time and introduced in a systematic fashion. This is the approach that has been adopted in the current reweighting and rebasing programme.

The extent of forewarning and transparency regarding the current reweighting and rebasing process is unprecedented in South Africa. Extensive documentation is available on the Stats SA website, and public briefings have been held more than six months before the actual implementation of the changes. The aim of these communication efforts is to allow various users of the CPI to understand the changes and their impact. We welcome public debate and discussion on the CPI and its methods.

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